

RTO West Pricing Proposal

A. Executive Summary.

This paper describes the RTO West Pricing Proposal for the recovery of the fixed costs of the RTO West Transmission System.¹ The other components of Transmission Service² under the RTO West Tariff—Congestion Management and Ancillary Services—are covered in separate papers.³ The filing utilities currently provide transmission service under Pre-Existing Transmission Agreements And Obligations to a large number of parties who will not be Participating Transmission Owners (“PTOs”). These Pre-Existing Transmission Agreements And Obligations cannot be unilaterally terminated by the filing utilities. The Pricing Proposal provides for voluntary conversion of all Pre-Existing Transmission Agreements And Obligations or honoring those agreements and obligations if a PTO’s pre-existing customer chooses not to convert to RTO West Transmission Service.

Section B of this paper describes the development process and design objectives used by the filing utilities to produce the Pricing Proposal. Section B also provides terminology used to describe the RTO West Transmission Services and explains the changes in contractual relationships that will occur when Pre-Existing Transmission Agreements are voluntarily converted to RTO West Transmission Service. Section C describes the two basic Transmission Services to be offered by RTO West: (1) Transmission Use Service and (2) Non-Converted Transmission Service. Section D is a description of the charges applicable to these services.

A.1 Transmission Use Service.

Transmission Use Service will apply to RTO West Transmission Customers taking new service or taking service derived from conversion of Pre-Existing Transmission Agreements And Obligations. For the payment of charges that recover the fixed costs of the system, this service allows the customer the right to schedule use of the RTO West Transmission System without additional charges for fixed cost recovery, from any point on the RTO West Transmission System to any point within the RTO West Transmission System, including internal interconnections. To schedule movement of energy out of RTO West, i.e., withdrawals at external points of interconnection, External Interface Access is required. External Interface Access may be purchased from RTO West by paying an External Interface Access Fee or by converting a Pre-Existing Transmission Agreement, which has access rights to external

¹ Capitalized terms not defined within this paper have the meaning assigned to them in the RTO West Transmission Operating Agreement.

² As used in this paper, “Transmission Service(s)” means the set of service and service options provided by RTO West under a FERC-approved tariff.

³ Attachment F, RTO West Congestion Management Proposal, and Attachment G, RTO West Ancillary Services Model.

interconnections, and paying a Transfer Charge. All RTO West Transmission Customers will be responsible for Ancillary services, losses,⁴ and congestion costs whether for deliveries within RTO West or for deliveries to External Interface Points. Congestion hedges for both internal and external deliveries may be obtained through RTO West auctions of Financial Transmission Options (“FTOs”) or by converting Pre-Existing Transmission Agreements And Obligations.⁵

To avoid cost shifting during the Company Rate Period, RTO West Transmission Customers will continue to pay their share of the RTO West Transmission System cost used to supply their loads within RTO West. If a Pre-Existing Transmission Agreement And Obligation that is required to serve load within the RTO West Transmission System (subject to the conditions described in Exhibit I of the Transmission Operating Agreement) expires during the Company Rate Period, the contract will be rolled over for the remainder of the Company Rate Period with a charge consistent with the rate for PTO’s Open Access Transmission Tariff service obligations. The revenues from this rolled-over service will continue to flow to the PTO to replace the revenues of the expired contract.

A.2 Non-Converted Transmission Service.

Non-Converted Transmission Service will be taken only by PTOs for the purpose of honoring Pre-Existing Transmission Agreements And Obligations that are not converted to RTO West Transmission Use Service. A pre-existing customer of a PTO, that chooses not to convert, will see no change in its service; it will schedule use of the system with the PTO and pay for the services rendered under its pre-existing agreement or obligation. The PTO in turn will use Non-Converted Transmission Service, acting as a Scheduling Coordinator for its nonconverted Pre-Existing Transmission Agreements And Obligations.

The PTO receives the right to schedule from and to points in the RTO West Transmission System in accordance with the Pre-Existing Transmission Agreements and Obligations. The PTO may not use Non-Converted Transmission Service to offer any additional service to its pre-existing customers beyond that provided for in the Pre-Existing Transmission Agreements And Obligations. Loads serviced by the PTO using Non-Converted Transmission Service will pay the equivalent of the Company Rate or Transfer Charge in their retail rates, wholesale requirements rates, or pre-existing contracts rates. The PTO will be responsible for Ancillary Services, losses, and congestion cost. RTO West and the PTO will catalogue Pre-Existing Transmission Agreements And Obligations to identify the set of Catalogued Transmission Rights associated with those rights.

⁴ Loss recovery for RTO West is described in Section D.2.f.

⁵ Converting customers’ options for converting the inherent congestion hedge of its Pre-Existing Transmission Agreements And Obligations to an RTO West congestion hedge as described in Attachment F, Congestions Management Proposal, Sections C.3.g and C.4.

B. Developing the RTO West Pricing Model

Developing a workable pricing model for the recovery of system fixed costs for RTO West has been a significant challenge, *i.e.*, moving from older models of transmission pricing to those required for RTO West. Historically, the rates for transmission service were based on the average embedded costs of each individual system—an annual revenue requirement divided by some measure of peak load served, often an average of 12 coincident peaks (“12 CP”). The service was provided by a vertically integrated utility as an incremental service secondary to its load service obligations for delivery of bundled energy sales to retail or wholesale requirements customers. Any congestion cost encountered in providing transmission service for its own needs and for separate transmission service to others was internalized by the service provider.

A change in philosophy occurred when the Federal Energy Regulatory Commission (“FERC”) issued Orders 888 and 889 in 1996. The goal of this shift was to build an infrastructure to support a competitive wholesale market. Owners of transmission systems were required to provide service to others that was comparable with their own use of their systems. Open Access Transmission Tariffs were put in place, explicit charges for use by affiliated merchants were required, and standards of conduct were put in place to effect functional separation of transmission operations from the other activities of vertically integrated utilities. Yet even with these reforms, the basic premise of transmission pricing remained unchanged. Congestion cost was still not explicitly identified for most service rendered, and the system of embedded cost pricing was maintained.

The need for transmission pricing reform to accompany open access has long been recognized. However, the incremental steps taken in Order 888 did not require such reforms. With the issuance of Order 2000, FERC concluded that independent operation of the transmission system was necessary for open access and called for the formation of Regional Transmission Organizations (RTOs) to operate the transmission facilities of a large region as a single system. FERC also concluded that such RTOs should provide the mechanism for implementing the needed pricing reforms. Two interrelated reforms were identified: (1) the elimination of pancaked transmission rates to reduce trade barriers to movement of energy across the combined systems forming an RTO and (2) a congestion management system that would provide for explicit identification of congestion cost based on marginal pricing mechanisms. For these reforms to work properly, it is necessary to alter the method for recovering the fixed costs of the transmission system.

B.1 Proposal Development History.

Developing the RTO West Pricing Proposal took place in two stages. The Stage 1 work, included in the RTO West filing made on October 23, 2000, used a load-based access fee called the “Company Rate” and a system of transfer payments among filing utilities. Unlike many RTO and ISO filings approved by FERC the proposal did not contain a volumetric charge for exports and through wheeling. The Stage 1 proposal used transfer payments among the filing utilities to recover revenues that would be eliminated under a de-pancaked RTO West Tariff, *i.e.*, charges for long-term, short-term, and nonfirm transmission service among the filing utilities.

Since the transfer payments would occur only between the filing utilities, some shortfall of total revenue was expected due to the elimination of revenue from short-term and nonfirm transmission service purchased under current company tariffs by parties that are not filing utilities.⁶

The Stage 1 Pricing Proposal maintained the system of Company Rates and transfer payments over the Company Rate Period, which begins with the commencement of Transmission Service by RTO West and runs for eight years. After that date, RTO West would determine whether to keep the initial rate design in place or adopt a new rate design. This period of stability in the collection of fixed costs reduces cost uncertainty during RTO West's initial period of operation while market participants gain experience with RTO West's congestion management system and Ancillary Service markets. In the collaborative process, those stakeholders that are load-serving entities have made it clear that this period of stability in the rate design is very important. The Company Rate Period is retained in the Stage 2 Pricing Proposal.

During Stage 2, new data was collected for the embedded costs, peak loads, and transmission revenues of the filing utilities for 2000. This updated data showed that short-term and nonfirm revenues had increased substantially over 1999. In 2000, these revenues represented 18 percent of the filing utilities' total revenue requirements for Transmission Facilities. These short-term and nonfirm revenues vary considerably from year to year, depending upon water conditions, market prices, and weather, so tying highly variable short-term revenues to a fixed long-term payment was a poor match of cost responsibility and actual year-to-year usage. For these reasons, the filing utilities concluded that the Stage 1 Pricing Proposal was no longer workable.

B.2 Proposal Design Objectives.

In developing the current Stage 2 Pricing Proposal, the filing utilities identified a set of design objectives to be met by an acceptable proposal. These objectives (described below) represent desired features, but they also contain inherent conflict that require trade-offs in practice. During both Stage 1 and Stage 2, the filing utilities have used the RTO West collaborative process as a sounding board for various pricing alternatives to balance these objectives. The filing utilities believe their current proposal represents a workable approach that balances competing objectives and interests and will recover the fixed costs of the transmission system in an equitable manner without impeding the operation of the congestion management system.

⁶ This is a simplified description of the Stage 1 Pricing Proposal that included several features to minimize this shortfall by using some transmission right auction revenues and uplifting some of the lost revenue.

B.2.a Objective Number 1—Avoid Price Increases and Cost Shifts.

The formation of RTO West depends upon voluntary action by the filing utilities. For the RTO West Transmission System to provide service within its full geographic scope, the proposed transmission system of the Bonneville Power Administration (Bonneville) and the systems of the investor-owned systems in the Pacific Northwest must be included. The filing, of which this pricing proposal is a part, contemplates the future inclusion of the interconnected system of British Columbia Hydro and Power Authority in Canada. The systems in Alberta may possibly be included in the future as well. The need to avoid substantial price increases and cost shifts among the utilities is a key to such voluntary formation. Each filing utility faces a number of approval hurdles before it can commit its systems to RTO West. The investor-owned utilities need approval of State commissions. The Canadian utilities must have approval of their provincial authorities. The Bonneville Administrator must satisfy himself that the interests of federal policy and Bonneville's customers are met. The Northwest congressional delegation is vitally concerned with questions relating to benefits and costs of RTO West, including potential cost shifts. The avoidance of substantial cost shifts among parties is a critical component of such approvals.

When RTO West is formed, a new tariff will be put in place for all service provided from the RTO West Transmission System. If a simple averaging of costs were used as the basis for collecting fixed costs, there would be a very large increase in prices for some of the Company Loads. Six of the nine filing utilities' Company Loads would experience cost increases because the rates of the individual filing utilities differ greatly. Since the Pacific Northwest is a region in which power costs are low, large increases in transmission cost translate into much larger percentage increases in total power cost than would occur in higher-cost areas dominated by thermal-electric generation.

The approach to this problem in other regions has been to use what have been called "license plate" rates at the outset, *i.e.*, charging a load-based access fee, which is equivalent to the historic cost of transmission service under previous tariffs and contracts, plus a charge to recover the costs of the RTO. Some proposed RTOs have modified this basic approach to mitigate cost shifts. The RTO West Pricing Proposal is such a variant, designed to keep charges for each group of customers approximately the same before and after RTO West formation.

B.2.b Objective Number 2—Eliminate Rate Pancaking.

The implementation of the seemingly simple "license plate" strategy for load-based access fees is complicated for RTO West by the fact that filing utilities provide a very large amount of transmission service to each other and to other parties. There has been an active wholesale energy market in the West as far back as the 1970s after the Pacific Intertie⁷ was completed. In the past 10 years the number of participants in that market has grown

⁷ The Pacific Intertie is made up of three sets of facilities: (1) two 500-kV AC lines completed in 1967 to interconnect Washington and Oregon with California, (2) a \pm 500-kV DC line added in 1970, and (3) a 500-kV AC line energized in 1993.

considerably. With the issuance of Order 888, the affiliated merchant activities of the filing utilities were also required to pay for transmission service to meet the comparability requirements of the Open Access Transmission Tariffs. Market participants have adopted different strategies with regard to the use of the transmission system. Some chose to use long-term transmission service, while others relied upon short-term and nonfirm transmission service. The revenues from just the short-term services now constitute 18 percent of the combined revenue requirements of the filing utilities. These charges are part of the rate pancakes FERC wants eliminated under Order 2000. However, if the revenues previously collected by such charges were simply eliminated, there would be a substantial price increase imposed upon the loads of the filing utilities.

The Stage 2 Pricing Proposal retains the concepts of a Company Rate and a Transfer Charge for long-term transmission services to collect the majority of the revenue requirements of the filing utilities. However, the rest of the revenue requirement collection is derived from a combination of sources—revenues from External Interface Access Fees, the surplus revenues produced by the congestion management system, and, if necessary due to sustained undercollection, a Backstop Recovery Mechanism. These sources form a pool of revenues to replace the component of the revenue requirement historically derived from short-term and nonfirm services (the Replacement Revenue Pool).

B.2.c Objective Number 3—Honoring Existing Contracts.

Each of the filing utilities has transmission service agreements with parties that will not become PTOs under RTO West. These Pre-Existing Transmission Agreements cannot be unilaterally terminated by the PTOs. Further, the parties to these Pre-Existing Transmission Agreements have made it clear in the RTO West stakeholder process that they wish to retain their current rights. Many remain openly skeptical of the benefits to them that would arise from the formation of RTO West. There are also Pre-Existing Transmission Agreements among the filing utilities that contain scheduling flexibility features associated with the use of hydroelectric resources and with hydrothermal optimization through the forward market. It is very difficult to replicate this flexibility with fixed strips of point-to-point financial rights, especially when no history exists for congestion management clearing prices. To avoid the risks associated with immediate conversion of Pre-Existing Transmission Agreements, the RTO West Pricing Proposal honors Pre-Existing Transmission Agreements And Obligations, allowing the holders of such rights to voluntarily convert contracts as they gain experience with the new congestion management system. Conversion of Pre-Existing Transmission Agreements offers these pre-existing transmission users access to all resources in the RTO West Transmission System, the ability to schedule directly with any RTO West Customer, and resalable transmission rights (i.e., FTOs) for rights that in many cases were not transferable to another party before RTO West formation.

B.2.d Objective Number 4—Recover a Fixed Cost Contribution From All Users.

All users of the transmission system benefit from investments in long-lived facilities made over many years—the transmission lines and substations that constitute the interconnected

system. Whenever a party moves energy over the RTO West Transmission System, it will be a beneficiary of these accumulated investments. The filing utilities believe that as a matter of equity, all uses—retail service, wholesale requirements service, marketing, exports, etc.—should make a contribution to the coverage of the fixed costs. This contribution may be in direct payments⁸ or indirectly through surpluses generated by the congestion management system.⁹

B.2.e Objective Number 5—Minimize Use of Volumetric Rates.

With the adoption of a congestion management system based on an “accept all schedules” nodal-pricing model, RTO West will permit economic trades to occur whenever the value of the trade is greater than or equal to the redispatch cost required to accommodate that transaction. Whenever volumetric charges are added to each transaction, the potential exists for discouraging some otherwise economic trades. The filing utilities have therefore attempted to minimize the use of volumetric rates; however, for practical reasons the Stage 2 Pricing Proposal contains two volumetric components—the External Interface Access Fee and the Grid Management Charge that recovers the operating cost of RTO West.

Since all parties benefit from the formation of RTO West and all its activities, it was deemed appropriate to collect the Grid Management Charge from all MWs scheduled with RTO West, aligning cost with benefit. The effect on trading efficiency will be small; the Grid Management Charge is estimated to be on the order of \$.50/MWh, less than the \$1/MWh level traditionally considered to be the threshold from measurable effects in FERC tariff filings.

The utilities in the Northwest Power Pool are net energy exporters to other areas of the West. The importing regions benefit from the use of the RTO West system to make energy deliveries, often on a nonfirm or short-term basis. It is estimated that half of the short-term revenues currently collected are related to system exports. The filing utilities concluded that forgoing these revenues would introduce a significant cost increase for RTO West’s Transmission Customers. As a transition element, an External Interface Access Fee has been included in the Stage 2 Pricing Proposal. To minimize any uneconomic impacts resulting from the External Interface Access Fee, provision has been made for RTO West to discount the rate. The elimination of export charges by all RTOs will further the single Western market vision developed in Western seams discussions. Therefore, the long-term goal of RTO West is to eliminate the External Interface Access Fee using a transfer payment type of reciprocity agreement with the other Western RTOs. Transfer payments among the RTOs in the Western

⁸ The direct payments, discussed below, include access fees in Company Rates or Transfer Charges, Grid Management Charges, External Interface Access Fees, and, if necessary, a backstop charge to be developed by RTO West to compensate for sustained underrecovery of the Revenue Recovery Target.

⁹ The surpluses of the congestion management system are produced by adding the auction revenues associated with the sale of FTOs and the net over/under collection produced in congestion clearing activities.

Interconnection would replace the revenues lost when the External Interface Access Fee is eliminated.

B.3 RTO West Transmission Service.

In traditional firm transmission service, customers pay a rate that makes a contribution to fixed cost recovery in order to schedule a transaction with a transmission service provider, i.e., an injection of power at one location that is withdrawn at another location. Usually such a transaction faces no additional charges related to any congestion costs, even though the transmission service provider may have to redispatch to a degree to provide the service. Under Order 888, Open Access Transmission Tariffs, two services are offered: (1) a point-to-point type of service that has a contract demand with rights between specifically identified points and (2) a network type of service that allows flexibility in scheduling from a set of identified resources to all customers' load locations. The transmission service that RTO West will offer is a combination of the features of these two services, i.e., a network access type of service that separates the right to schedule from protection against congestion costs.

B.3.a Scheduling Rights and External Interface Access.

An RTO West Transmission Customer will receive a service that allows it to schedule the injection of energy at any point on the RTO West Transmission System and withdraw that energy at any point within the RTO West Transmission System, including at internal interconnections. The loads receiving this service will pay for access to the system through a combination of Company Rates and Transfer Charges as described below. When the scheduled withdrawal point is located at an external interconnection of the RTO West Transmission System, an External Interface Access will be required.¹⁰

As used by RTO West, Injection Points and Withdrawal Points refer to locations on the RTO West Controlled Transmission Facilities where nodal prices will be calculated by the congestion management system. Locations where energy is received or delivered are called Points of Receipt and Points of Delivery; they will be aggregated to Injection and Withdrawal Points for RTO West scheduling, operations, and congestion management.

External Interface Access is obtained by payment of the External Interface Access Fee, or it may be derived from a Pre-Existing Transmission Agreement that included rights to reach points that are defined by RTO West as External Interface Points. In the latter case, the cost of External Interface Access is implicitly included in charges paid by the customer.¹¹ External

¹⁰ The requirement for External Interface Access applies to movement of energy to an External Interface Point. Trades between parties at that point or schedules away from that point, whether within RTO West or to another system outside RTO West, will not be subject to an additional fixed-charge recovery fee.

¹¹ The External Interface Access Fee will not apply to withdrawals scheduled by RTO West Transmission Customers at internal interconnections. See discussion at Section C.2.b below for additional detail.

Interface Access may be resold to another RTO West Transmission Customer, if purchased from RTO West or if resale is in accordance with Pre-Existing Transmission Agreements. When purchased at full price from RTO West, External Interface Access will be portable to any External Interface Access Point. External Interface Access purchased at a discount can be resold, but use will be limited to the External Interface Point and the time period to which the discount applies. External Interface Access derived from Pre-Existing Transmission Agreements and Obligations will be restricted to the External Interface Point provided in the original agreement or obligation. A list of External Interface Access Points is provided in Exhibit I of the Transmission Operating Agreement.

B.3.b Congestion Hedges.

A congestion hedge protects an RTO West Transmission Customer from price volatility associated with charges for transmission system congestion costs. RTO West will offer FTOs as a congestion hedge.¹² FTOs will be offered in auctions conducted by RTO West and will be tradable to encourage the formation of a secondary market in these rights.

B.3.c Contracts Expiring During the Company Rate Period.

To avoid cost shifting during the Company Rate Period, RTO West Transmission Customers will continue to pay their share of the RTO West Transmission System cost used to supply their loads within RTO West. If a Pre-Existing Transmission Agreement that is required to serve load within the RTO West Transmission System (subject to the conditions described in Exhibit I of the Transmission Operating Agreement) expires during the Company Rate Period, the contract will be rolled over for the remainder of the Company Rate Period with a charge consistent with the rate for PTO's Open Access Transmission service obligations. The revenues from this rolled over service will continue to flow to the PTO to replace the revenues of the expired contract.

B.4 Contractual Relationships for RTO West Transmission Service.

RTO West will offer two Transmission Services during the Company Rate Period: (1) Transmission Use Service and (2) Non-Converted Transmission Service. Transmission Use Service is a service open to all Eligible Customers. Non-Converted Transmission Service is available only to PTOs for the purpose of meeting their Pre-Existing Transmission Agreements And Obligations. The differences in these two services and the contract conversion process are shown in Figures 1 and 2 below.

¹² Under certain conditions, RTO West will also allow parties converting contracts to choose to use Cataloged Transmission Rights (CTRs). See Attachment F, RTO West Congestion Management Proposal, Section C.4.

Figure 1 – PTO Taking Non-Converted Transmission Service To Honor a Pre-Existing Transmission Agreement

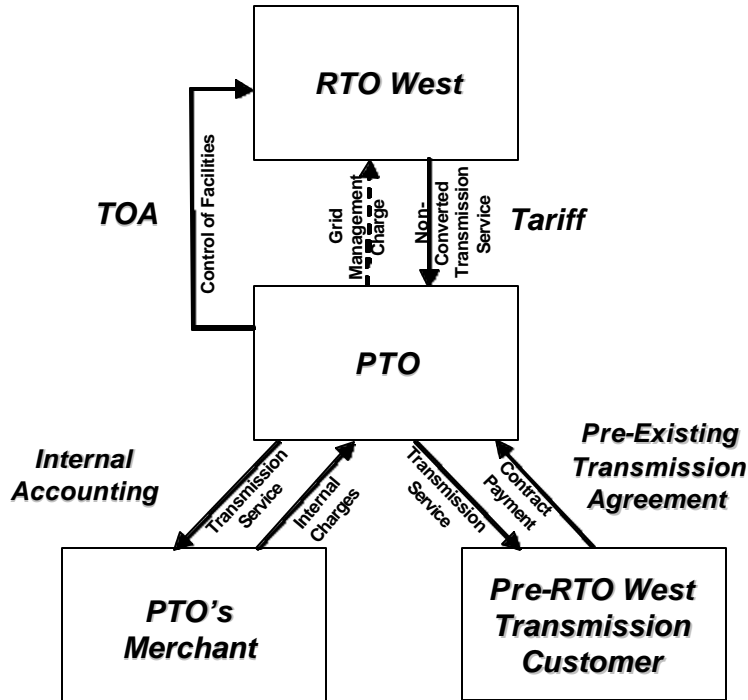


Figure 1 depicts the contractual relationships between RTO West, a PTO, and a pre-RTO West transmission customer of the PTO that has not converted its Pre-Existing Transmission Agreement to RTO West Transmission Service. The PTO and RTO West have entered into a Transmission Operating Agreement (TOA) that grants RTO West the right to control the facilities owned by the PTO. In exchange, RTO West will provide Transmission Service under the RTO West Tariff with appropriate payments between the parties, as described in detail in later sections of this paper. Non-Converted Transmission Service is used by the PTO to satisfy its load-service obligations to retail and wholesale customers (represented in Figure 1 as the PTO's Merchant) and its obligations under Pre-Existing Transmission Agreements. From the perspective of the Transmission Customer, the contract relationship is unaltered, although the PTO is now taking service from RTO West on behalf of its pre-existing customer.

Figure 2 – Pre-Existing Transmission Agreement Converting to Transmission Use Service and PTO Continuing with Non-Converted Transmission Service

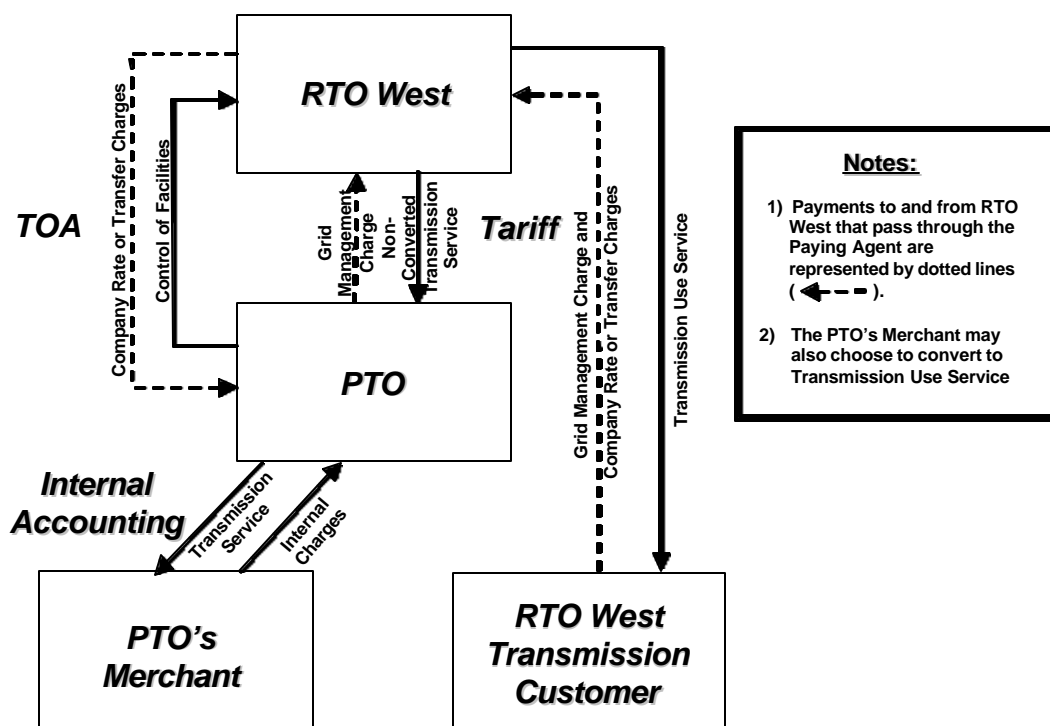


Figure 2 depicts the change in relationships that takes place when the Pre-Existing Transmission Agreement represented in Figure 1 is converted and the PTO's transmission customer becomes an RTO West Transmission Customer. The PTO continues to take Non-Converted Transmission Service to meet its load-service obligations, but the PTO no longer acquires Non-Converted Transmission Service on behalf of its former customer under the Pre-Existing Transmission Agreement. Instead, this customer now takes Transmission Use Service directly from RTO West.

The congestion hedges and rate paid will depend on the features of the Pre-Existing Transmission Agreement being converted. However, for an RTO West Transmission Customer, the RTO West Tariff provisions will apply for the Grid Management Charge, Ancillary Services, losses, congestion management, etc., rather than the provisions of the pre-existing contract. The Transmission Service charges paid by an RTO West Transmission Customer may include one or more of the following components, each of which is discussed in detail in Section D of this paper:

- 1) Company Rate – The effective rate paid by a PTO for service to its native load (retail and wholesale requirements customers) and the rate paid by customers with Pre-Existing Transmission Agreements for network-type service if they convert to Transmission Use Service.
- 2) Transfer Charges – A payment for service under a converted Pre-Existing Transmission Agreement that is based on the transmission service charges paid by a PTO's transmission service customer under the Pre-Existing Transmission Agreement.
- 3) Grid Management Charge – A \$/MWh charge assessed on all schedules that recovers RTO West's administrative and operating costs, including start-up and development costs.
- 4) External Interface Access Fee – A fee charged for External Interface Access that permits the scheduling of energy to external interconnections of RTO West.
- 5) Fees from Backstop Recovery Mechanism – A charge or charges to be developed by RTO West if a sustained undercollection occurs because External Interface Access Fees and the surplus from the congestion management system are insufficient to replace historical revenues from the elimination of nonfirm and short-term charges from long-term contracts that expire during the Company Rate Period.

C. RTO West Transmission Services – Customer Options.

C.1 Pre-Existing Transmission Agreements with PTO Providers.

As discussed in Section B.2.c above, the RTO West Pricing Proposal has been crafted to permit pre-RTO West transmission customers of PTOs to retain their Pre-Existing Transmission Agreements or voluntarily convert their agreements to RTO West Transmission Service. If the pre-existing transmission customer retains its existing agreements, there is no change in price, terms, and conditions except under the provisions of that agreement. No new services will be provided by the PTO to this nonconverting customer, only those already provided for in the Pre-Existing Transmission Agreements. Under the Transmission Operating Agreement, RTO West becomes the sole provider of Transmission Service from the facilities of the PTO. Any new services to a nonconverting customer must therefore come from RTO West. The PTO obtains services from RTO West necessary to honor its old contracts. The PTO will be billed under the RTO West Tariff for the Grid Management Charge, Ancillary Services, losses, and any other applicable charges. The PTO may attempt to recover these costs from pre-existing transmission customers if the pre-existing agreement allows.

C.2 Transmission Use Service.

Transmission Use Service is open to all Eligible Customers of RTO West and covers both new service and service based on the conversion to RTO West Transmission Service of Pre-Existing Transmission Agreements And Obligations. Each Transmission Customer pays an access rate that collects a contribution of the fixed cost of the RTO West Transmission System. All Transmission Customers will come under the general provisions of the RTO West Tariff, *i.e.*, pay the Grid Management Charge, self-supply Ancillary Services or purchase them from RTO

West, and be subject to the loss-recovery mechanism in the RTO West Tariff. The customer will also be billed for the congestion cost associated with the customer's injections and withdrawals of energy from the RTO West Transmission System. Customers may have or may obtain a congestion hedge to protect themselves from the congestion cost.

C.2.a Conversion of Pre-Existing Transmission Agreements And Obligations.

With the formation of RTO West, the pre-existing transmission customers of each PTO will be encouraged to convert their Pre-Existing Transmission Agreements to RTO West's Transmission Use Service. The number of these Pre-Existing Transmission Agreements ranges from a few for some PTOs to hundreds for Bonneville. Pre-Existing Transmission Agreement conversion will occur whenever a pre-existing customer of a PTO wishes to establish a direct scheduling relationship with RTO West, either by becoming a Scheduling Coordinator itself or by selecting someone other than its PTO as its Scheduling Coordinator. Before contract conversion, the PTO will be the Scheduling Coordinator for the usage of all rights a party may have under an unconverted pre-existing agreement. A converting customer may not subsequently return to the PTO and demand that the PTO reassume the responsibility of serving as its Scheduling Coordinator. Designation of a PTO as a Scheduling Coordinator will only be with the consent of the PTO after conversion occurs.

The process of converting Pre-Existing Transmission Agreements involves executing a suspension agreement between the PTO and its customer, which will provide that transmission service will henceforth be provided by RTO West. In the event RTO West ceases to exist or a PTO withdraws, the original agreement must be reinstated. Therefore, the Pre-Existing Transmission Agreement must be suspended rather than terminated. The suspension agreement will establish either the Transfer Charge (for point-to-point services) or the charges under a Company Rate (for network types of services) to be paid for RTO West Transmission Use Service. Customer load growth will pay the appropriate Company Rate.¹³ The Transfer Charge or Company Rate revenues will be billed by RTO West and passed on to the PTO through the Paying Agent¹⁴ to replace the contract revenues received by the PTO before contract conversion. As an RTO West Transmission Customer, the converting customer will pay the Grid Management Charge and the Company Rate or Transfer Charges as applicable, and it will be responsible for Ancillary Services, losses, and congestion costs. Congestion hedges for both internal and external deliveries may be obtained through RTO West auctions of FTOs or by converting Pre-Existing Transmission Agreement And Obligations.¹⁵

¹³ In most cases, point-to-point types of contracts are for fixed amounts of demand, and network types of contracts are billed on a load-ratio share of the transmission service provider's cost for which the Company Rate is a proxy. Hence, load growth likely falls under network-type agreements to which the Company Rate would apply. In the event that a point-to-point contract has a flexible demand base which includes load growth, the load growth would be billed by increasing the Transfer Charges.

¹⁴ See Attachment K, Paying Agent Agreement, for details.

¹⁵ Converting customers' options for converting the inherent congestion hedge of its Pre-Existing Transmission Agreement and Obligations to an RTO West congestion hedge as described in Attachment F, RTO West Congestion Management Proposal, Sections C.3.g and C.4.

C.2.b Scheduling to External Interface Points.

Schedules of RTO West Transmission Customers to withdrawal points at RTO West's external interconnections will require External Interface Access. External Interface Access will not be required for withdrawals scheduled by RTO West Transmission Customers at internal interconnections. Internal interconnections are points where RTO West interconnects with a nonparticipating entity whose electrical system interconnects only (1) with RTO West or (2) with RTO West and another transmission system(s) whose interconnections are completely within the RTO West Transmission System, i.e., electrical "islands" within the RTO West "ocean."

External Interface Access may be obtained in two ways by a customer taking Transmission Use Service. The first option is to purchase External Interface Access from RTO West by payment of the External Interface Access Fee. External Interface Access will be sold in annual, monthly, weekly, daily, and hourly strips of reservations, with discounting for daily and hourly strips (and perhaps longer strips) as described in Section D.2.a below. External Interface Access may be resold to another RTO West Transmission Customer. External Interface Access purchased at full price from RTO West will also be portable to any External Interface Point. Access purchased at a discount may also be resold, but its use will be limited to the specific External Interface Point to which the discount applied.

The second option for obtaining External Interface Access is conversion of a Pre-Existing Transmission Agreement that provides access to points in the transmission system that are external interconnections of RTO West, i.e., the listed External Interface Points. The converting customer will pay a Transfer Charge to maintain these historical rights. External Interface Access obtained in this way will be transferable to other parties, but its use will be limited to the external point(s) of interconnection identified in the Pre-Existing Transmission Agreement from which it is derived. External Interface Access is not congestion hedging.

C.3 Non-Converted Transmission Service.

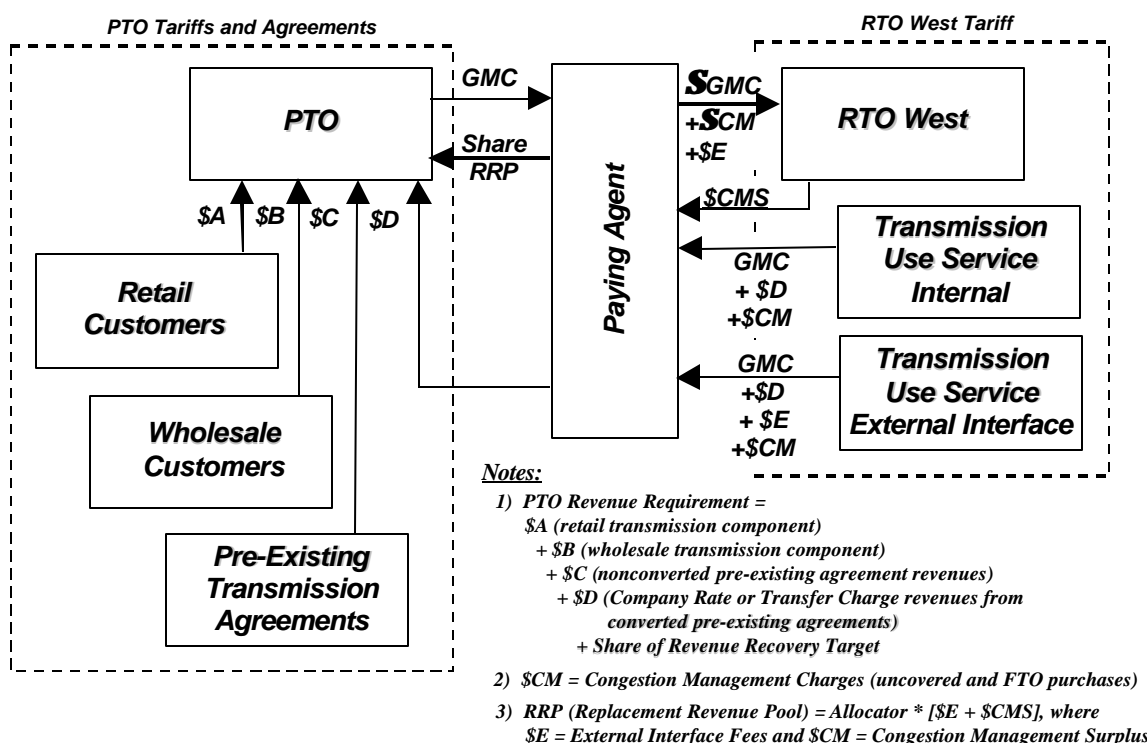
Non-Converted Transmission Service will be available only to PTOs for use to satisfy their responsibilities for Pre-Existing Transmission Agreements And Obligations. These responsibilities include honoring pre-existing agreements and meeting load-service obligations for State jurisdictional retail service and pre-Order 888 bundled sales for resale. Entities that do not convert their Pre-Existing Transmission Agreements to RTO West Transmission Service have no direct relationship with RTO West; instead, the PTO obtains Transmission Service from RTO West and uses that service to meet its pre-RTO West contractual obligations.

The PTO taking Non-Converted Transmission Service pays the Grid Management Charge and is responsible for Ancillary Services, losses,¹⁶ and congestion costs as described in the RTO West Tariff. The PTO receives the right to schedule from and to points on the RTO

¹⁶ See Section D.2.f for a discussion of loss recovery for RTO West.

West Transmission System in accordance with the Pre-Existing Transmission Agreements And Obligations. The PTO may not use Non-Converted Transmission Service to offer any additional service to its pre-existing customers beyond that provided for in the Pre-Existing Transmission Agreements And Obligations. RTO West and the PTO will catalogue Pre-Existing Transmission Agreements And Obligations to identify the set of CTRs associated with those rights.

Figure 3 – Collection of Revenue Requirements



Under Non-Converted Transmission Service, the PTO does not make an explicit payment to RTO West for the service provided to satisfy Non-Converted Transmission Agreements. Instead, the PTO contributes its assets to RTO West,¹⁷ which RTO West then uses in combination with the facilities of all PTOs to provide Transmission Service under the RTO West Tariff. The PTO recovers the revenue requirements of its transmission facilities from several sources as shown in Figure 3 above.¹⁸ It continues to collect a transmission-cost component in bundled

¹⁷ The contribution to the embedded cost of facilities takes place through the Transmission Operating Agreement. See the Filing Letter and Attachment A, Transmission Operating Agreement, for a detailed discussion of the facilities included within RTO West for pricing and transmission access.

¹⁸ Figure 3 assumes that Replacement Revenue Pool is equal to the Revenue Recovery Target with only External Interface Access Fees and the congestion management surplus going into the pool. If the revenue backstop is triggered, additional charges would be shown. See Section D.2 for further discussion.

retail rates and wholesale rates. It will also continue to collect the revenues from Non-Converted Transmission Agreements.¹⁹ RTO West will bill both Non-Converted Transmission Service and Transmission Use Service Customers for the Grid Management Charge. Payments for RTO West Transmission Service are made to the Paying Agent, who distributes funds received as instructed. The PTO receives an allocated share of the Replacement Revenue Pool to replace revenues from short-term, nonfirm, and expired long-term services provided before RTO West formation. RTO West receives the Grid Management Charge collections from all RTO West Transmission Customers.

C.4 Retail Direct Access Implications.

Direct retail access is or will be available in some States. Like other Pre-Existing Transmission Agreements And Obligations, direct-access customers of PTOs may maintain their existing contractual arrangements or, if permitted by State law or voluntarily by the PTO consistent with State law, they may choose to become RTO West Transmission Customers and take Transmission Use Service. Like all others taking Transmission Use Service, they will be able to schedule from any resources to serve their load. As RTO West Transmission Customers, they must pay the appropriate Company Rate to cover their full load as they would have done before becoming an RTO West Transmission Customer. The direct access customer must either become a Scheduling Coordinator or acquire the services of another authorized Scheduling Coordinator in order to take Transmission Use Service.

There will be no further RTO West access charges for transmission service, but the other provisions of the RTO West Tariff—Grid Management Charge, Ancillary Service, losses, and congestion costs—will apply. Congestion hedges will be obtained in the same manner described above for all Transmission Use Service customers.

D. Transmission Service Charges – Detailed Description.

D.1 Company Rates and Transfer Charges.

The effective rate paid by a PTO for service to its native load (retail and wholesale requirements customers) is called the Company Rate, and it is also the rate paid by customers with Pre-Existing Transmission Agreements for network-type service if they convert to Transmission Use Service. The Company Rate is a key feature of the RTO West pricing system designed to minimize cost shifts. The Company Rate is calculated based on each PTO's embedded cost of providing service, as follows:

¹⁹ Under the provisions of the Transmission Operating Agreement, the PTO may designate RTO West as its billing agent and have the revenues from Pre-Existing Transmission Agreements remitted to the Paying Agent.

$$\begin{array}{l}
 \text{Company Rate} = \left\{ \begin{array}{l} [\text{(Company Costs)} \\ \pm \text{(Transfer Charges)} \\ - \text{(Revenue from Non-Converted Transmission Agreements)} \\ + \text{(Costs of Non-Converted Transmission Agreements)}] \\ \hline \text{Company Load} \\ \text{Billing Determinants} \end{array} \right\} \\
 + \left\{ \begin{array}{l} [\pm \text{(Transmission Facility Cost Sharing Payments)} \\ - \text{(Allocated Merchant Function External Interface Access Fee} \\ \text{Revenue—if applicable)} \\ - \text{(Replacement Revenue Pool Allocation)} \\ + \text{(TOA Costs Allocation)}] \\ \hline \text{PTO Interconnected Load} \\ \text{Billing Determinants} \end{array} \right\}
 \end{array}$$

Each of the terms is described below, along with other issues related to calculation of the Company Rate.

Company Load Billing Determinants:

The Company Rate is paid by the Company Load, which includes the native load of the Investor Owned Utilities and any converted network-type load. It is expected that the Company Billing Determinants will be based on monthly coincidental peaks (12 CP):

<u>Customer</u>	<u>Billing Determinant</u>
Load Service Obligations and native load (converted or nonconverted)	12 CP total load
Converted network-type contracts	12 CP network load

Company Costs:

Company Costs are the total revenue requirements for a forward two-year test period for each PTO's transmission facilities as described in the TOA. The use of a two-year test period is necessary to allow synchronization of ratemaking practices between the federal power-marketing agencies and the FERC jurisdictional utilities. Without this provision, a potential recovery inequity is created among the PTOs. The Company Costs are recovered from four sources:

- Company Rate payments
- Revenue from Non-Converted Transmission Agreements
- Revenue from net Transfer Charges
- Allocations of the Revenue Replacement Pool

Transmission Facility Cost Sharing Payments:

These payments recover the cost of new facilities built after RTO West formation by one PTO whose costs are to be allocated to other PTOs' Company Rates, either by mutual agreement of the parties or because RTO West determined under its planning and expansion authority that costs should be allocated to all parties that benefit from the new facilities.

Revenue from Non-Converted Transmission Agreements:

Transmission Customers that do not convert their Pre-Existing Transmission Agreements to RTO West Transmission Use Service will continue to pay for transmission based on the transmission rate of their PTO provider as provided by those agreements. The revenues received by the PTOs are credited in the Company Rate calculation. The PTO will take service from RTO West under Non-Converted Transmission Service in order to meet its responsibilities to its pre-existing customers. The PTO pays the Grid Management Charge and is responsible for Ancillary Services and losses for the Pre-Existing Transmission Agreements, but makes no explicit payment to RTO West for transmission service as described in Section C.3 above.

Transfer Charges:

When Pre-Existing Transmission Agreements are converted to RTO West Transmission Use Service, Transfer Charges replace the payments under the PTO's transmission rates. Transfer Charges received are credited in the calculation of the Company Rate.

Costs of Non-Converted Transmission Agreements:

Currently, FERC does not allow transmission purchased from others to be included in a transmission provider's transmission rates. It is booked as a power cost to be recovered from power customers. However, as part of the elimination of pancaking, third-party transmission costs may be included in Company Rates. These transmission purchases are currently almost always pancaked with the transmission provider's own transmission costs in power sales prices.

In RTO West, these third-party transmission costs can take two forms: (1) payments for Non-Converted Transmission Agreements paid at a rate in the PTO provider's transmission rate contained in those agreements and (2) "paid to" Transfer Charges for Converted Pre-Existing Transmission Agreements. Both Transfer Charge costs (paid to) and Non-Converted Transmission Agreement payments are includable in Company Rates.

However, there may be some "paid to" transfer payments or nonconverted contract costs that should not be included in the Company Rate but rather should continue to be charged to the PTO merchant (an example would be a transfer payment based on a contract of an unregulated affiliated merchant). For these cases, the PTO can include an internal "received from" transfer payment from its merchant to offset the "paid to" transfer payment in the Company Rate calculation.

Allocated Merchant Function External Interface Access Fee Revenue:

These revenues are credited to the Participating Transmission Owner for its merchant function's use of External Interface Points located on the facilities owned by a Participating Transmission Owner (see Section D.2.e below for further discussion).

TOA Costs Allocation:

The RTO West TOA provides for some costs to be spread over all RTO West loads. Not all loads pay the Company Rate, so RTO West needs a more inclusive load definition, called "PTO Interconnected Load." PTO Interconnected Load is the load interconnected to each PTO's Electric System, except that General Transfer Agreements²⁰ loads are PTO Loads of the PTO that has traditionally supplied power to those loads. Total PTO Interconnected Load Billing Determinants depend on the transmission service the customer used to service its load before RTO West formation and whether the customer has converted that service to Transmission Use Service shown below. TOA Costs are allocated among the PTOs based on the PTO Interconnected Load Billing Determinants. Once TOA Costs have been allocated to a particular PTO, those costs are spread over the PTO's PTO Interconnected Load Billing Determinants, as defined above. The PTO does not establish a rate for service to new loads, so the allocated costs associated with the new load portion of the Company Load Billing Determinants must be recovered from the PTO's allocation of the Replacement Revenue Pool. The portion of the costs to be included in Company Rates are called "Company Costs" and are equal to the ratio of the PTO's LSO/native load plus converted network load divided by the PTO's Company Billing Determinants.

²⁰ General Transfer Agreements are Pre-Existing Transmission Agreements that provide for transmission to loads of one PTO that are located within the pre-RTO West control areas of another PTO.

PTO Interconnected Load Billing Determinants:

<u>Customer/Load serving arrangement</u>	<u>Billing Determinant</u>
LSO/native load (converted or nonconverted)	12 CP total load
Non-Converted Transmission Agreements	
Network contracts	12 CP network load
Point-to-point/pre-Order 888 Contract demand	Contract demand
Converted Pre-Existing Transmission Agreement	
Network contracts	12 CP network load
Point-to-point/pre-888 Order Contract demand	Contract demand
New Service	12 CP total load

D.2 Replacement Revenue Pool.

As discussed above, the elimination of pancaked transmission rates within the RTO West Transmission System creates a revenue shortfall. The Stage 2 Pricing Proposal establishes a Replacement Revenue Pool from which allocations will be made to PTOs to compensate for the loss of revenues from the elimination of nonfirm and short-term firm charges at RTO West formation and from the loss of revenues from pre-existing long-term transmission agreements that expire during the Company Rate Period. The Revenue Replacement Pool will be made up of revenues collected from three sources: (1) revenues from External Interface Access Fees, (2) the surplus revenue from the congestion management system, and (3) revenues from the Backstop Recovery Mechanism if necessary to correct a sustained undercollection of the Revenue Recovery Target using only the first two sources.

D.2.a The External Interface Access Fee.

As described above, External Interface Access will be required for schedules using withdrawal points at external interconnection points and may be obtained either by paying a Transfer Charge associated with conversion of a Pre-Existing Transmission Agreement or by paying RTO West the External Interface Access Fee. The External Interface Access Fee will be calculated based on the average cost of the RTO West Transmission System, *i.e.*, a systemwide “postage stamp” rate. Using the annual rate, monthly, weekly, daily, and hourly rates will be calculated.²¹

²¹ The method for calculation of the External Interface Access Fee and an example of rates are shown in Attachment 1, Transmission Operating Agreement, Exhibit I.

RTO West's goal, with regard to the Replacement Revenue Pool, will be to manage the combined revenue from External Interface Access Fees and from congestion management surpluses to collect the full Revenue Recovery Target and to avoid triggering the Backstop Recovery Mechanism. In so doing, RTO West will enable the PTOs to recover their transmission revenue requirements. The External Interface Access Fee will be a "not to exceed" rate, discountable by RTO West for hourly, daily, and longer periods. RTO West will discount to a level it deems appropriate to maximize revenue. As in the Order 888 Open Access Transmission Tariff, discounts will apply to all transactions at a given External Interface Point for a given time period; however, discounts at one interconnection do not require discounting at other External Interface Points, nor does discounting in one hour of a day require discounting for all hours of the day or of the daily rate.

D.2.b Surplus Congestion Management Revenues.

The RTO West congestion management system is expected to produce a net surplus from its operations. RTO West will realize positive net revenues whenever it makes a sale of unencumbered capacity, either explicitly through auctions of FTOs or implicitly through congestion charges incurred by uncovered schedules. In releasing FTOs, RTO West will exercise its judgment regarding the available system capacity for a given time period as described in the Congestion Management Proposal. During actual operations, RTO West may overcollect or undercollect in a given hour, depending on operating transfer capability, the number of outstanding FTOs, congestion charges collected from uncovered schedules, and the cost of any redispatch required to balance the system. The filing utilities believe that RTO West will realize positive net revenues when the auction revenues are added to the overcollections and undercollections from hourly congestion clearing activities. These surplus revenues represent a contribution to fixed-cost recovery that can be used to mitigate the loss of revenues due to elimination of pancaking within RTO West.

D.2.c Revenue Recovery Target.

The Revenue Recovery Target will be a fixed dollar amount equal to the average of nonfirm and short-term revenues collected by the PTOs for a set of reference years, beginning with 1999 and running until the last full calendar year that immediately precedes RTO West's commencement of operations. The Revenue Recovery Target will be adjusted for revenues lost as a result of long-term contracts expiring during the Company Rate Period.²² The adjustment will be equal to the revenue from the expiring contract during the last year of the Reference Period. A complete year of revenue from an agreement will be included as the last full calendar year revenue if the agreement had a service commencement date after January 1 in the last year of the Reference Period or in any year following the last year of the Reference Period. A PTO's charges to its internal merchant during the Reference Period will not be included in the target calculation.

²² After RTO West commences operation, PTOs will be providing no new transmission service and hence making no new long-term sales.

D.2.d Backstop Recovery Mechanism.

Although the filing utilities believe that the combination of External Interface Access Fees and the surplus revenues from the congestion management system will meet the Revenue Recovery Target, the proof of this conclusion can come only after RTO West is in operation. For instance, if market prices are low and additional transmission is built, the congestion management surplus revenues may be less than expected. Similarly, a low water year with additional construction of new thermal resources in California or the desert Southwest may drop exports from the Pacific Northwest to other parts of the Western Interconnection. To address this undercollection contingency, the Stage 2 Pricing Proposal establishes parameters that would trigger the creation of additional charges by RTO West or modifications to its pricing policies if it is necessary to correct a chronic undercollection of the Revenue Recovery Target.

In considering a backstop mechanism for collecting the Revenue Recovery Target, the filing utilities concluded that the Backstop Recovery Mechanism should be triggered only by a large deviation or by a cumulative under- or overcollection over time. In any given year, the Annual Recovery Differential will be equal to the annual collections by the Replacement Revenue Pool minus the Revenue Recovery Target. RTO West will allocate annual revenues from the Replacement Revenue Pool as described in Section D.2.e below.

The Backstop Recovery Mechanism will be triggered by underrecovery, if the cumulative sum of the Annual Recovery Differentials is negative and the absolute value of the cumulative sum exceeds the difference between the lowest annual short-term and nonfirm revenue in the Reference Period and the average annual short-term and nonfirm revenue in the Reference Period. Once triggered by underrecovery, RTO West will be responsible for developing a set of additional charges or modifications to its pricing policies to correct the cumulative shortfall and recover the Revenue Recovery Target on a prospective basis. In establishing charges, RTO West will determine the potential cause of the shortfall and design the new charges to align cause and effect if possible. For instance, RTO West might find that underrecovery is due in part to the fact that increasing load is reducing available system capacity, resulting in reduced MW of FTO sales. In that case, a pro rata share of the shortfall could be allocated to the loads whose growth has contributed to the reduction in revenues flowing to the Replacement Revenue Pool (or, alternatively, reducing the pool allocation for a PTO to achieve the same effect). Other possibilities for causal relationships may exist, such as a change in usage by an affiliated merchant. However, it is also possible that RTO West may be unable to trace the shortfall to any major cause or set of causes, in which case a more general charge may be required. For example, RTO West could institute a charge to obtain a right to schedule for those market participants not making an equitable contribution to the fixed costs of the system. The actual design and application of the Backstop Cost Recovery Fee will be left to RTO West if the backstop mechanism is triggered. RTO West will prepare a proposal for consideration and discussion by stakeholders and will file its final proposal with FERC for approval as a proposed change to the RTO West Tariff.

Given the uncertainty of moving to a new pricing system, it is possible that the Revenue Replacement Pool may result in a sustained overcollection of the Revenue Recovery Target. The Backstop Recovery Mechanism will be triggered by overrecovery, if the cumulative sum of the Annual Recovery Differentials is positive and the cumulative sum exceeds the difference between the highest annual short-term and nonfirm revenue in the Reference Period and the average annual short-term and nonfirm revenue in the Reference Period. As with underrecovery, RTO West will propose an appropriate mechanism for adjusting the balances in the Replacement Revenue Pool—for instance, using a portion of the Replacement Revenue Pool to lower the Grid Management Charge, reducing External Interface Access Fees, or holding reserve to cover future shortfalls if a single large year triggers the Backstop Recovery Mechanism.

D.2.e Allocating the Replacement Revenue Pool.

The revenues collected through External Interface Access Fees, congestion management surpluses, and, if triggered, fees from the Backstop Recovery Mechanism will flow into the Replacement Revenue Pool for allocation to the PTOs by RTO West. These revenues are to be allocated among the PTOs and used to reduce the PTOs' respective revenue requirements. This allocation of revenues is designed to replace the revenues that would have been received from the sale of short-term and nonfirm transmission service under pre-RTO West tariffs. It is also designed to replace revenue lost because of the expiration of long-term Pre-Existing Transmission Agreements during the Company Rate Period as described in Section D.2.c above.

Each year, RTO West will allocate the annual collections flowing into the Replacement Recovery Pool. The over- and undercollections therefore flow through to the PTOs. If the Backstop Recovery Mechanism is triggered by an underrecovery, the additional charges put in place by RTO West will raise the funds available for the subsequent annual allocation of the Replacement Revenue Pool to make up for the cumulative undercollection. If the Backstop Recovery Mechanism is triggered by overrecovery, the adjustments to rates made by RTO West will reduce the amount available for allocation of the Replacement Revenue Pool in future years. In either case, RTO West will adjust the appropriate components in its tariff to eliminate the accumulated over- undercollection balance and collect the Revenue Recovery Target on a prospective basis.

As noted above, calculation of the Revenue Recovery Target does not include revenues from affiliated merchants of PTOs. This lowers the Revenue Recovery Target; however, for symmetrical treatment, future usage by affiliated merchants should be directly credited against a PTO's transmission costs to lower its Company Rate. For this reason, when a PTO's affiliated merchant uses External Interface Access at an External Interface Point located on the facilities owned by a PTO, the External Interface Access Fee will not go into the Replacement Revenue Pool, but instead will be credited directly to the PTO to lower its Company Rate.

D.2.f Recovery of transmission system losses.

Before commencement of operations, RTO West will develop a loss-recovery mechanism that will be applied to Transmission Use Service, both converted service and new service. The

Pre-Existing Transmission Agreements And Obligations have embedded within them contract loss factors. In most cases, the losses are provided in-kind to the PTO and they do not vary with time periods. Until these Pre-Existing Transmission Agreements And Obligations are voluntarily converted, the PTOs will continue to collect losses using the loss rates applicable to each Pre-Existing Transmission Agreements And Obligations. The losses collected under the Pre-Existing Transmission Agreements And Obligations by the PTOs will be provided to RTO West, who will use the energy provided within the overall loss-recovery mechanism.

D.3 Grid Management Charge.

The Grid Management Charge is a formula rate designed to recover RTO West's administrative and operating costs, including the start-up and development costs incurred in establishing RTO West. The Grid Management Charge will be a dollar-per-megawatt-hour (\$/MWh) charge levied on all schedules²³ submitted to RTO West by an RTO West Transmission Customer.

²³ When RTO West accepts incremental or decremental bids submitted by an RTO West Transmission Customer for congestion clearing, energy imbalance, or other RTO West system regulation and control function, the resulting changes in dispatch made by RTO West are not considered schedules submitted by the RTO West Transmission Customer and the Grid Management Charge is not charged.